Official Minutes from the April 17, 2018 MCC Advisory Council Meeting

Millennium Challenge Corporation
Franklin Court, Suite 700, Rooms A and B
1099 14th Street, NW, Washington DC
April 17, 2018
9:00 am – 2:00 pm

Agenda

8:30 am – 9:00 am	Coffee and pastries
9:00 am	Call to Order and Welcome Robert Blau, Vice President of Department of Compact Operations Mima Nedelcovych and Tim Docking, MCC Advisory Council Co-Chairs
9:15 am	Conversation with MCC Leadership – Council Reflections and Next Steps Jonathan Nash, Acting Chief Executive Officer Karen Sessions, Vice President for Congressional and Public Affairs
10:00 am	Blended Finance: How to Stay at the Cutting Edge Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade Jason Bauer, Director, Finance, Investment and Trade
10:45 am	Break

11:00 am	Collaborating with the Department of Commerce to Maximize US Private Sector Participation Guest Speaker: Dale Tasharski, Acting Deputy Director General for Global Markets, U.S. Department of Commerce, International Trade Administration
12:00 pm	Lunch Service
12:30 pm	Working Lunch: Feedback for Kosovo Infra Support Facility Sarah Olmstead – Country Team Lead, Kosovo Threshold Program Bert Bossar – Associate Director, Finance Investment and Trade
1:30 pm	Concluding Remarks/House Keeping Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade
1:50 pm	Opportunity for Public Comment
2:00 pm	Meeting Adjourns

Welcoming Remarks and Call to Order

MCC Advisory Council Co-Chairs, Mima Nedelcovych and Timothy Docking, called the meeting to order and welcomed the members to the fourth and final meeting of the inaugural term of the MCC Advisory Council. They then passed the floor to the Vice President for Compact Operations, Robert Blau.

VP Blau welcomed the Council, and thanked the co-chairs and all of the Council members for their efforts over the past two years. He previewed the agenda, including the remarks from, and discussion with, Dale Tasharski, Acting Deputy Director General for Global Markets at the U.S. Department of Commerce International Trade Administration. He noted that Erin Walsh, Assistant Secretary of Commerce for Global Markets at the Department of Commerce was not going to be able to join the meeting due to illness and that she sends her regrets. VP Blau commended the Council for their previous suggestions, which had driven the inclusion of a representative from the Department of Commerce on the agenda.

Conversation with MCC Leadership – Council Reflections and Next Steps

VP Blau introduced Jonathan Nash, MCC's Acting CEO, who started his remarks with a reflection on the

Council and a sense of surprise at how quickly two years had passed. He recognized all members of the Council for their efforts in validating MCC's work and championing the organization as it pushes the envelope. He extended a hearty thank you to Co-Chairs Docking and Nedelcovych, noting their commitment to the work of MCC and their efforts, which have been above and beyond the call of duty to ensure the Council got off to a successful start.

Acting CEO Nash also noted that he had seen first-hand the impact that the Council has had on MCC's operational work and the benefit that MCC teams are drawing from their engagement with the Council.

Acting CEO Nash, highlighted exciting news from MCC at the beginning of his remarks:

- MCC's CEO nominee, Sean Cairncross, was voted out of the Senate Foreign Relations Committee on March 20 and is currently awaiting a confirmation vote by the full Senate.
- On April 2, the MCC Indonesia Compact reached the end of its five-year implementation period. The Indonesia compact is among MCC's most complex and ambitious, and has generated concrete results for the Indonesian people and lessons for MCC – in nutrition, procurement and green growth. There will be much more celebration ahead as MCC prepares for in-country close out events the week of May 7.
- On April 9, the Senate passed the AGOA and MCA Modernization Act, which will enable MCC to make cross-border, regional investments to promote economic growth, maximize poverty reduction, and facilitate trade and investment. The House passed identical legislation in January, so we are now just awaiting the President's signature.

Given this exciting development, Acting CEO Nash mentioned that MCC is actively thinking through the best ways to operationalize the approach and that he anticipated this being a topic for discussion at the next meeting of the MCC Advisory Council, as well as upcoming Board meetings. He noted that as early as December or March of 2018, MCC may seek Board approval to select countries or projects.

He also provided a readout of the April 3 MCC quarterly Board of Directors meeting, during which the Board approved a $35 million threshold program with the Togolese Republic. He reiterated his view that this innovative program places Togo's citizens and the private sector at the heart of Togo's growth strategy, expanding access to the internet and communications technology, especially for underserved areas, women and youth, as well as clarifying land rights.

Acting CEO Nash mentioned that he knew many members of the Council were closely following the BUILD Act. He noted that the introduction of an international development finance institution into the USG's tool box is exciting, and MCC is currently exploring ways we can maximize the collective impact of MCC and the DFI. He welcomed Council advice on this subject and thought it would tie in well with the upcoming discussion on blended finance.

Acting CEO Nash highlighted that the FY18 enacted budget included a budget of $905 million for MCC, and noted that our Congressional Affairs team and staff are collaborating with Congressional Oversight committees as the FY19 budget is being finalized. He also introduced new members of the leadership team, including:

- Cynthia Huger, MCC's Vice President for A&F and Chief Financial Officer;
- Lara Smith, who joined the Office of the CEO as a Special Advisor; and
- Karen Sessions, Vice President for Congressional and Public Affairs.

After introducing Karen Sessions, he turned the floor to her to provide brief remarks. VP Sessions, provided a bit of background on her professional experience and how her expertise would be put to work at MCC to ensure more stakeholders are aware of and support the MCC model. She expressed her excitement about the Council and its role in understanding and amplifying the work of MCC.

VP Sessions asked the Council members to provide advice in the blended finance section of the agenda, and in future meetings, regarding how MCC can continue to lead in this area. She also noted that she was keen to hear from Council members their ideas regarding how MCC can collaborate effectively with a new development finance institution to pair institutional reforms, public and private investment and innovation to drive impact in MCC partner countries.

VP Sessions and Acting CEO Nash then opened the floor for discussion among and with the Council members.

The first set of questions and comments came from Aubrey Hruby, who noted that she was pleased to see MCC moving forward with regional investments and that a project-based approach made sense. In particular she was interested in hearing more about the ways in which selection will work and how MCC's investment criteria and monitoring and evaluation will be applied in this new framework.

Acting CEO Nash noted that the initial projects will be charting a new course and, therefore, MCC will be looking for projects that can demonstrate a high degree of success. He noted it was likely that the initial round of countries would be those where we already have compacts and may focus on areas within MCC's core areas of competency – roads and energy infrastructure, border crossings, etc. Acting CEO Nash commented that, like all MCC compacts, there would be a rigorous M&E framework developed and the MCC investment criteria would need to be fulfilled. He said that he looks forward to hearing the advice of the Council as these ideas move forward.

Council Co-Chair, Tim Docking, asked Acting CEO Nash for further reflection on the Togo threshold program, given the Advisory Council's previous suggestion that a tech lens be applied to MCC's compacts. He inquired if the Board had provided any feedback regarding MCC's work in ICT for development and if Acting CEO Nash thought there was sufficient expertise within MCC to pursue this in future partner countries.

Acting CEO Nash agreed that this work was exciting and new for MCC – Togo is our first standalone investment in ICT. He noted that our in-house bench strength on this topic is being reviewed and that we may need to decide what skills are needed and where that function might sit if pursued. Acting CEO Nash said that although the Board didn't provide specific thoughts about replicating ICT investments in other countries, they did express support for threshold investments in places exactly like Togo where MCC's risk capital is best placed to make an impact. In addition, they supported the approach of tranching funding based on the fulfillment of conditions, in a similar fashion to what was done in the Ghana Power Compact.

Responding to a question about regional authority, Acting CEO Nash reflected on the outreach that will need to be done to assure partner countries that MCC isn't a zero sum game and that pursuing a regional compact would not reduce the ability of a country to pursue a bilateral Compact agreement.

Aaron Bielenberg offered his thanks to MCC for putting together the Council and ensuring that the meetings were substantive. He expressed his view that the Council is well-placed to provide advice to MCC and asked in what ways MCC hopes to use the Council in the future. In addition, he asked for MCC's initial thoughts on the BUILD Act.

Acting CEO Nash responded that the next term of the MCC Advisory Council will build on the success of the first term and that he looks forward to the new leadership team providing additional direction regarding the objectives of the Council, frequency of meetings and potential for subcommittees. With regards to the BUILD Act, Acting CEO Nash and Senior Director for Finance, Investment and Trade, Alex Dixon commented that MCC is looking forward to working closely with the new DFI to determine how the two entities can work together to maximize impact. MCC is already improving the investment climate in our partner countries to open them to new investment opportunities. The question remains what additional work MCC can do to de-risk investment, provide our expertise in countries where OPIC doesn't currently operate and contribute to business processes by supporting feasibility studies and developing bankable deals.

Nilmini Rubin remarked that the AGOA and MCC Modernization Act calls out regional trade and asked how MCC will be contributing to these efforts. She also asked about efforts for ICT to be further reviewed as part of the constraints analysis. Lastly, Rubin asked for Acting CEO Nash to comment on the recent letter from Senator Menendez regarding diversity at MCC.

Acting CEO Nash noted that regional authority provides substantial opportunity to have an impact on trade. For example, regional investments could reinforce the impact of the bilateral compacts, focusing on maximizing transport infrastructure by investing in cross-border infrastructure and more efficient logistics at border crossings. MCC has some experience in this work, but in the past has only been able to focus on one side of the border, rather than both.

With regards to ICT, Acting CEO Nash, noted that the constraints analyses on-going in Timor Leste and Lesotho will include a review of the ICT space, as has been done in other constraints analyses. Although past CA's have taken a look at this sector, the CA in Togo was the first to highlight it as a binding constraint.

Responding to Nilmini Rubin's question regarding MCC's response to the Senator Menendez letter, Acting CEO Nash reiterated MCC's commitment to diversity in the context of its on-going strategic plan

Next, Goal 5 of which focuses on building a world-class workforce, and also referenced MCC's formal response, available on MCC's website. He mentioned that he sees MCC as a diverse workplace that, just like all organizations, must be committed to diversity, build trust and ensure that all staff are able to thrive. This includes awareness raising, and training on key issues such as unconscious bias and sexual harassment.

Aubrey Hruby encouraged MCC to look to trade facilitation agreement (TFA) compliance as a potential area for natural synergies as countries seek to meet its requirements. Although many countries are making strides to improve on the Doing Business indicators, there is much work to be done to comply with new requirements under the recently adopted TFA.

Pat Sheikh echoed support for this approach for African Union TFA countries in Africa and noted that following the most recent African Union meeting, the main question remains – what happens beyond commitment and how will these efforts be implemented.

Co-Chair Mima Nedelcovych added that with regional, as with everything, the devil will be in the details. He encouraged MCC to look to existing supranational institutions rather than trying to create new entities like cross-border roads authorities. He also highlighted that challenges may arise as MCC determines where the asset sits. In his view, the size of the regional compact will need to be large enough to make it worth it for all parties to cooperate and see the mutual benefit.

Acting CEO Nash wrapped up the session by again thanking the Council for their input and noted that although he will likely soon step back from the Acting CEO role, he looks forward to championing the Council and its work into its second term.

Blended Finance: How to Stay at the Cutting Edge

Senior Director for Finance, Investment and Trade, Alex Dixon, kicked off the session with an overview of blended finance and how he sees MCC continuing to play a leadership role in this space. He turned the discussion to MCC Advisory Council member, Alex Sarac, to provide an overview of the blended finance conference that his law firm, Berwin Leighton Paisner, hosted in London in November.

Several members of the Council and MCC staff were in attendance at the conference and mentioned the relevance of the discussion to on-going conversations about blended finance and that it brought all of the key players in this dialogue together.

Jason Bauer, Director for Finance, Investment and Trade, presented MCC's vision for its role in blended finance, noting different tools MCC might bring to bear to help meet the global funding gaps in critical infrastructure. He noted that he sees a paradigm shift happening in which blended finance goes beyond rhetoric to establish roles and responsibilities among the varying stakeholders that will enable the billions to trillions agenda.

Referencing the lexicon coined by Dalberg in a recent opinion article in Devex, Dixon and Bauer noted that MCC has a role to play as a builder, catalyst and deal maker in the blended finance arena. They focused on MCC's desire to leverage additional private sector capital to maximize the impact of grant funding provided through MCC compacts.

Dixon highlighted that MCC funds are often used to help improve the investment environment and have been used in the past to fund transaction advisory work for PPPs. He is leading the MCC team to think creatively about the ways in which MCC funds could be used as tools to match/mitigate market risks. He is seeking ways to coordinate with the new DFI, learning lessons from other teams with a similar structure, such as the World Bank & IFC and DFID and CDC in the UK. He encouraged Council members to provide feedback to MCC, to ensure we are hitting the mark, looking at the right options for engagement and providing tools that will matter in the market.

Robert Dove offered that a blended finance conference, similar to that held in London would be welcomed in other major financial capitals such as New York and Hong Kong to capture other areas of the globe. He encouraged MCC to dialogue directly with private sector actors to determine what risks they can reasonably take and which would be best allocated elsewhere, particularly infrastructure funds.

Mini Roy noted that by and large DFIs operate in a very different world than commercial banks. Often they simply pay lip service to the private sector, rather than having honest conversations about the risk/return tradeoffs. She encouraged MCC to see their position in direct conversations with partner governments as a key advantage and to use the gravitas of this role as a way to convene critical discussions about blended finance.

Through his self-described environmental lens, Kevin Moss was encouraged to see the words environment, climate and sustainability throughout the presentation. He challenged MCC to consider where the Sustainable Development Goals fit into the conversation on blended finance and how countries will secure funding to meet their commitments.

Alex Dixon responded to these comments noting that:

- McKinsey and BLP have separately discussed hosting follow-on blended finance discussions in New York and the Middle East, respectively.
- There is an on-going debate about the role of profit in this space, as well as the balance that must be struck between development goals and financial returns.
- MCC is a leader in sustainability and can help offset some of the risk that the private sector would typically take on, as we adhere to the IFC performance standards throughout our projects and are willing to pay for the proper execution of work at the highest standards for environment, health and safety. In addition, we seek to fairly compensate project affected persons according to global best practice. The private sector often sees these costs as prohibitive and welcomes our efforts to cover this expense.
- MCC is looking for areas that need public financing – research has been done to identify these areas and we want to fill these gaps, rather than crowding out private sector financing options.

Carolyn Campbell added that she was a bit on the fence about the broader pitch around blended finance and will be looking for the results of these initial stages of discussions to play out before making further assessment. With that said, she noted that MCC serves as a lightning force in the countries where it is working, and paves the way for further investment from organizations such as OPIC. In the context of blended finance, she recommended MCC give detailed thought to determining what can be done within a five year time frame and what is the right size of funding to facilitate additional private capital investment.

Bob Prieto offered that he noticed there were a lot of equity players at the blended finance conference and suggested that debt was likely a more difficult nut to crack than equity. He sees opportunities for MCC to i) help create a project pipeline through project preparation work, ii) build capacity in bank project finance skills, and iii) underpin slices of debt for infrastructure especially in the first five years, when the projects are most susceptible to cash flow issues through cash flow and credit guarantees, upfront investment to increase loan tenors and influencing covenants.

Marta Urquilla noted that the Beeck Center at Georgetown University has many lessons learned to offer on a few of these topics – particularly i) the balance needed when profit-making entities that are making investments in projects with both profits and social outcomes as goals, and ii) the role that social/impact bonds and pay for success/outcomes-focused models play in a both/and strategy for success. Megan Guy also noted that The Nature Conservancy has experience in developing innovative finance structures, such as the DC Green Infrastructure Fund, that deliver both conservation and community outcomes.

Alex Dixon and Mima Nedelcovych thanked the Council members for their active participation and excellent recommendations noting that this would not be the last time this topic is discussed amongst Council members.

Guest Speaker: Dale Tasharski, Acting Deputy Director General, Global Markets, U.S. Department of Commerce

Dale Tasharski joined the Advisory Council meeting to discuss ways in which the U.S. Department of Commerce is working to open new markets to US companies, and how MCC is collaborating with the Department to achieve these goals. He was joined by two policy advisors from his team: Jonathan Lang, Senior Director for Policy and Strategy; and Rachel Houston-Carter, Special Assistant to Assistant Secretary Erin Walsh.

Mr. Tasharski explained his view that US companies are expanding their reach globally, including to African and other developing markets, due to the export and infrastructure opportunities that exist in these less developed countries. He pointed to his team's work in identifying opportunities early through coordination with agencies like MCC, as well as with the Commercial Service Officers that are present in many embassies around the world. In particular, he highlighted areas where MCC and the Department of Commerce are hoping to work together to make this more streamlined:

- Prescreen local firms that may make good teaming partners or suppliers for US firms seeking to

bid on projects;
- Include the MCC compact in a broader MOU or deal package with partner governments;
- Define strategic areas where market leads are likely and flag/share opportunities early;
- Coordinating an interagency team, including MCC and others, that can support trade missions, provide development finance and offer risk mitigation tools to US firms bidding on projects overseas.

More generally, the Department of Commerce is hoping to identify and tackle trade barriers, understand and explain perceived risks within global markets and tackle priority areas of interest for US firms, such as intellectual property, open/transparent government procurement and local content requirements.

Mr. Tasharski referenced the feedback and advice that the Council provided to MCC's incoming leadership team and noted the synergies in the recommendations with the relationship that the Department of Commerce and MCC are seeking to foster.

Tim Docking commented that, from his experience, US firms are most interested in streamlining the "number of knocks needed" to determine opportunities and supported the Department of Commerce resourcing commercial service support in a way that will enable this market intelligence to more easily get to US firms. Lastly, he asked how the Department of Commerce is harnessing technology to help inform work at Commerce.

Mr. Lang responded that the Department is using technology to identify opportunities through data analytics that will help expand the number of US middle market companies that are exporting overseas. Collected indicators score how likely SMEs are be ready for exporting to global markets and enables the Department to target outreach in a more powerful way.

Aaron Bielenberg added that when US companies have a fair shot at winning international business, they often win bids. He noted that he was glad to hear that the Department is seeking ways to package the US offering as so many Engineering, Procurement, and Construction firms (EPCs) are now being asked to bring finance to the table. He also asked how the Department is reacting to the One Belt, One Road initiative.

Mr. Tasharski mentioned an upcoming conference that may be of interest to Council members – Discover Global Markets Design + Construct in Kansas City, April 30-May 2, 2018. He also suggested that this work starts with having ears to the ground about what is happening in countries. US companies are interested in early information, and local operations are needed to get that information flowing. The posts that the Department has sitting within the African Development Bank, and other development banks help get early information to US companies.

With regards to One Belt, One Road, Mr. Tasharski noted that the Department is doing what it can to position US companies early and well and to offer an alternative to the Chinese model of developing infrastructure first, which leads to follow-on opportunities later. The Department is also active in efforts regarding open and transparent procurement processes, which can lead to a more level playing field for

US firms competing abroad.

Bob Prieto offered that the issue of corruption needs to be called out, dispute mechanisms need to be in place and good practices such as the modern day slavery act in the UK need to be championed to ensure US firms are well-positioned to compete in these tenders. He also drew attention to the fact that the US follows different standards and doesn't operate in the metric system making a doubling of efforts sometimes necessary to compete outside of the US.

Mini Roy suggested that the US could do a better job at researching and conducting market due diligence for US firms. She noted an example of working for a global firm and receiving significantly more and better data on an opportunity from other embassies than from the US embassies. In addition, she pointed to good practices from Canada in their efforts to bring companies from export market countries to Canada for road shows so they get to know the Canadian companies better and Canada better understands their clients. Lastly, she noted that having a fully functional ExIm Bank is critical to providing export finance solutions to US firms.

Nilmini Rubin recommended that Mr. Tasharski and his team redouble efforts to make data available about what companies are winning projects and who is funding those projects. For example, if you go to the AfDB or World Bank sites, it is impossible to find how many US firms have won contracts. And you can't solve a problem that you don't understand.

Alex Sarac noted several issues in the current state of play – i) single sourcing, ii) pipeline issues, iii) a lack of capacity in government to bring a competitive tender to market and evaluate it according to global best practice, and iv) competition from Chinese firms that bring infrastructure and finance together in a package that is very hard to beat.

Mima Nedelcovych offered that he thinks the Ambassador sets the tone for the US commercial engagement in a country and he hopes that efforts combining MCC and the Department of Commerce's Foreign Commercial Service will help open doors for not just big business, but smaller companies across the globe.

Kosovo Case Study: Infrastructure Support Facility

Sarah Olmstead, Country Team Lead for the Kosovo Threshold program and Bert Bossar, Associate Director for Finance, Investment and Trade started the discussion by providing context on the country and MCC's work there to date. Kosovo was declared eligible for an MCC threshold program in 2016. A Constraints Analysis for Kosovo identified the lack of reliable supply of electricity as one of the binding constraints to growth. MCC's investment ($49 million) is designed to strengthen the power sector by fostering a market-driven approach to lowering energy costs for households and businesses, encouraging energy efficiency, and developing new sources of electricity generation.

Based on gap analysis and theory of change, the Kosovo team believes an opportunity exists for MCC to play a catalytic role in enabling renewable energy project financing and expanding Kosovo's commercial banking products and services through a joint approach: (1) project accelerator/project development; and (2) access to commercial capital, leveraging targeted technical assistance to renewable energy IPP developers, regulators, and key financial sector stakeholders in an effort to standardize markets and transfer knowledge to institutions.

Given the potential to catalyze renewable energy project financing in Kosovo, several options for incentivizing local commercial lending are being developed based on a theory of change that believes most financial markets need external intervention to develop innovative products.

Component 1: Project Accelerator – Focus on project preparation to consolidate and pool existing renewable energy IPP licenses into a portfolio through the technical assistance facility. Thereafter, DFIs would lead a consortium with local banks to provide project financing.

Component 2: Guarantee De-risking Mechanism – Catalyze Kosovo banks in extending project financing directly to renewable energy IPPs. MCC would either create a new Guarantee Facility or provide funding support to an existing one (e.g. Kosovo Credit Guarantee Fund) to develop and offer financial products designed to address specific financial barriers identified during the root cause analysis.

MCC Advisory Council members offered their feedback and asked questions of the team.

Robert Dove agreed with the proposed concept noting that he had seen these types of projects executed in areas outside renewables. He asked if the goal would be for this to move beyond renewables at some point in the future and sought the team's view on the potential of Kosovo reaching 25% renewables by 2020.

Olmstead and Bossar noted that the 25% renewables goal was very ambitious, but they may be able to reach it by buying renewable energy from elsewhere. With regards to the approach being applied to other sectors beyond renewables, Bossar noted that this was the intention, but that the hope was to start small and demonstrate success that could then be applied to other areas.

Carolyn Campbell pointed the team to an excellent example in South Africa that was executed incredibly well and could be a model to replicate. In addition, she recommended the team look into the price of capital, what else could be holding banks back (i.e. legislative reforms needed) and inquired how local capital like pension funds were participating in the financial sector.

Bossar noted that although there are no caps on the tenor of loans, and the sector has liquidity, there aren't any loans available beyond 7 years. He also pointed to the fact that although there isn't a government guarantee for the Kosovo Credit Guarantee Fund, SIDA has guaranteed the whole book, so it is considered an AAA rated investment.

Closing Remarks and Housekeeping

Alex Dixon closed the meeting with a reiteration of the key themes coming out of the discussion and a note to look for additional information from MCC regarding recruitment of MCC Advisory Council members for the next term. He extended thanks to the Council members for their efforts over the past two years and asked that members provide MCC with feedback regarding ways to improve the Council.

Tim Docking provided closing thoughts and challenged MCC to continue to push the limits, to be innovative and aspirational in its thinking. He noted that MCC shouldn't seek to just be a connector or a bridge but a leader in this paradigm shift on blended finance. He expressed support for the Council to set up subcommittees that might provide additional thought on some of these more detailed topics.

Kevin Moss sought clarification that all comments would be attributed and confirmation was provided. He also suggested that more tactical issues might be best suited for subcommittees and the more strategic discussions well-placed for discussion in full Council meetings. He also asked that MCC consider ways to connect local and in-country work to the Council.

Carolyn Campbell noted that she hopes to see MCC collaborate closely with a new development finance institution, and that these efforts will provide a clear and preferable alternative to opaque, single source government-to-government deals.

Patricia Sheikh rounded out the comments by noting her hope that MCC will continue to see the value in engaging with the private sector early. She also urged MCC to provide information to the private sector that will help them better understand the opportunities available.

Opportunity for Public Comment

There were no public comments at the meeting.

Advisory Council Members Present:

- Aaron Bielenberg, McKinsey & Company
- Carolyn Campbell, Emerging Capital Partners
- Timothy Docking, International Business Consultant, Emerging Markets (Advisory Council Co-Chair)
- Robert Dove, Darby
- Megan Guy, The Nature Conservancy (by phone)
- Kenneth Hansen, Norton, Rose, Fulbright, LLP
- Aubrey Hruby, Africa Expert Network; Atlantic Council
- Mima Nedelcovych, Initiative for Global Development (Advisory Council Co-Chair)
- Bob Prieto, Strategic Program Management, LLC
- Mini Roy, Metis Markets LLC
- Nilmini Rubin, Tetra Tech

- Alexander Sarac, Berwin Leighton Paisner
- Patricia Sheikh, Corporate Council on Africa
- Marta Urquilla, Beeck Center for Social Impact and Innovations, Georgetown University (by phone)
- Kevin Moss (in Manish Bapna's stead), World Resources Institute

Guest Speaker

Dale Tasharski, Acting Deputy Director General, Global Markets, U.S. Department of Commerce

Advisory Council Members Absent with Apologies:

- Joe Dougherty, Dalberg Global Development Advisors
- Scott Eisner, U.S. Chamber of Commerce
- Del Renigar, General Electric
- Alvin Rohrs, Enactus (retired)

Annexes

- Written Feedback from Advisory Council Members Regarding Kosovo Infra Support Facility; Blended Finance (below)
- Advisory Council Meeting Presentations for Kosovo Infra Support Facility; Blended Finance
- Read Ahead Material Provided to Council Members: Kosovo Advisory Council Briefing Memo; Advisory Council Country Updates – Previously Discussed Programs; MCC Advisory Council 2018-2020 Term Overview

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MCC Advisory Council: Written Feedback – Kosovo

Nilmini Rubin, Tetra Tech

Initial reactions and concerns?

The problems described in the paper are common and it captures a phase of development faced by many developing or newly established countries: Lack of sufficient infrastructure, lack of strong creditworthy off-taker, inexperienced local banks and local developers, limited ability to back-stop government obligations or address political risk.

There seems to be some contradiction in the statement: "developers are capable of developing *bankable* projects although the sector could benefit from targeted assistance in *enabling project financing*." If they are capable of developing bankable projects, what TA is required by the developers, and why?

Based on the options presented do you think the current proposed approach will achieve objectives without a financing component? What aspects of the model do you have questions about? Anything particular that you like or dislike?

Confusing. What is meant by "without a financing component"? Just expanding the guarantee capacity of KCGF, but not directly lending to projects via a financing component?

KCGF will have greater capacity to support projects if it focuses its support on providing guarantees vs. direct lending.

Projects should be screened for eligibility for TA. Any technical assistance provided to developers (feasibility support, legal support negotiating documents, financial analysis/business planning, etc.) should be limited to projects that have been prioritized for their impact on the economy and power sector and overall likelihood of closing, eg. taking into consideration, stage of development, size, experience of developers and their access to equity, overall feasibility of the project to be implemented.

If MCC addresses the project preparation and development issues, will local or regional bank realistically then take on project financing risk or will they continue to sit on the sideline?

No. TA for project preparation alone will not necessarily make the country and market risk go away. Off-taker credit risks surrounding revenue source will be critical to address to help mobilize lenders.

Is there a moral hazard created by a guarantee model to incentivize banks to enter the project financing market?

Providing guarantee support should be limited to back-stopping government obligations or actions. As such, we don't see the risk of this causing developer or lender to take any additional risks or game the system.

Is the idea of a demonstration effect real in your mind?

It is not clear what is meant by this question.

For a small country such as Kosovo (with a high-risk reputation) how can we attract quality international project developers – should we pool IPP generators into a portfolio – to pursue investments along MCC and other DFIs?

Project sizes have to be substantial to attract and support project financing. Small markets all face the pressure to compete for investors' attention, and often have to offer something extra to make it worth their time (terms and conditions, competitive return on investment, government support, scalability, etc). Capital is fluid and has lots of options.

Looking at Kosovo specifically. When looking at a small PV project 5 years ago, we observed that the local banks had plenty of capital. But, they were (at least at that time) still focused on traditional commercial lending, with collateral and short tenures, etc. In that instance, the developer simply went to a German bank (with whom it had a relationship) and secure a low(er) interest loan. There needs to be a very candid conversation with the banks on what it would take for them to start moving towards project finance, and go from there.

Kevin Moss, World Resources Institute

Initial reactions and concerns?

- This is a solid approach to attracting investment in the sector, similar concepts have worked in other sectors and countries.
- What remains unaddressed in this briefing are if there are concurrent structural reforms needed in the power sector. If there is investor concern in the FIT, then perhaps there are concerns about the liquidity of the relevant utilities/ministry. Which in turn would mean additional reform measures might be required to fix underlying challenges with tariffs, collections etc.
- International project developers should not need much assistance pulling together the fundamentals of their IPP packages; the only area in which experienced project developers should need assistance would be in understanding and navigating the specifics of the Kosovo banking sector and the mechanisms being established by this program. However, the local banks will need considerable, focused, project specific training and assistance in order to fully understand the loan packages, risks and project viability etc.
- A strong international fund as a committed partner would also be an excellent way of both mitigating local banking risk, and boosting the confidence of both the project developers and local banks. If backed by a guarantee fund for risk, this would make for a solid program.
- Look for scope to provide assurance against redirecting these funds to fossil fuel generation.
- Look for scope to provide assurance to fostering local renewable energy development
- Fostering of local job hiring for construction activities associated with the establishment of renewable energy projects would be welcomed
- The write up does not address i) whether access to the grid by renewable energy developers have been analyzed, ii) whether the grid infrastructure as it currently exists would accommodate renewable energy, iii) how the proposal compares to “spot” renewable energy i.e., direct provision of renewable energy to a user such as a manufacture, or large government facility.

Based on the options presented do you think the current proposed approach will achieve objectives without a financing component? What aspects of the model do you have questions about? Anything particular that you like or dislike?

- At a minimum the **guarantee** mechanism should have at least a high level of commitment from an institutional partner (such as OPIC) prior to MCC embarking upon this project.
- Without a loss guarantee that is available for each specific project finance package (rather than a portfolio guarantee), then the program risks an overly long start-up period during

which time bank enrollment is likely to be low. Start-ups that drag on too long risk under-enrollment and under-accomplishment over the life of the fund & guarantee availability. To mitigate this potential, the program should ensure at least a high level of interest – in possibly an MoU form – from both a risk guarantor and an investment fund before being launched.

If MCC addresses the project preparation and development issues, will local or regional banks realistically then take on project financing risk or will they continue to sit on the sideline?

That expectation seems reasonable, though in part it depends upon the expected returns of these energy projects compared to other investment options available to the local banks. Additionally (as noted above) the briefing does not discuss if structural changes to the utilities/ministry are required to make these projects bankable. Also (as noted above) experienced project developers should not need too much project prep assistance; it is the banks that would need the specific project level training and assistance in order to fully understand the loan packages, risks and project viability etc.

Is there a moral hazard created by a guarantee model to incentivize banks to enter the project financing market?

The project should comply with best international financial practices to avoid/minimize risk of moral hazard.

Is the idea of a demonstration effect real in your mind?

This type of program has been shown to be effective in helping the banking sector to understand their risks and the desirability of a new sector for investment.

For a small country such as Kosovo (with a high-risk reputation) how can we attract quality international project developers – should we pool IPP generators into a portfolio – to pursue investments along MCC and other DFIs?

- You might consider establishing a standard due diligence process for all prospective IPPs, whereby through the due diligence and resulting risk rating the project developers and investors would know that a certain standard level of due diligence is applied and that they can trust the resulting risk rating.
- Additionally, consider developing your guarantee to specifically cover (or to insure) the non-project related risks. This sets up a fair share approach whereby the project developer takes on the standard risk that they must bear as a part of any project, while the guarantee fund (or insurer) is covering the political and off-taker (etc) risks. This would help to attract investment and mitigate this specific concern.

Mima Nedelcovych, Initiative for Global Development

Re the Kosovo Threshold Compact, not enough, if any, attention is being paid to the utility, which after all is the offtaker and needs to develop proper credit history.

Megan Guy, The Nature Conservancy

Based on the options presented do you think the current proposed approach will achieve objectives without a financing component? What aspects of the model do you have questions about? Anything particular that you like or dislike?

> I like the proposed model. Building capacity and incentivizing / improving the commercial banking sector certainly seems like a far more attractive approach to drive long term growth and economic development than MCC or an IFI stepping in to serve as lender. I think it will be important to build in a critical path to assessing capacity building for both developers and lenders, and to ensuring that the guarantee facility ultimately winds down and/or does not require any incremental capitalization (this gets to the moral hazard question below).
>
> I would like to better understand the economics and operational characteristics of the various renewables sectors that MCC is trying to stimulate through this approach – how significant is the overall opportunity, and what is the quality of the solar, wind, hydro resource in Kosovo? How do they compare with other generation alternatives? How significant a piece of the project economics are subsidies or other policy interventions? This seems like a critical piece of information to assess the likelihood that the Accelerator and KCGF are ultimately able to serve as a bridge to a robust commercial sector, rather than a perpetually required market intervention.

If MCC addresses the project preparation and development issues, will local or regional bank realistically then take on project financing risk or will they continue to sit on the sideline?

> Not knowing the country context personally, I would think that if there is an economic return to be made through project lending, those banks will come to the table – provided they have the skills to properly assess the opportunities, and that they are not captive to bad actors or other political influences. I think the memo indicated that they are not used to underwriting this sector, so capacity building, data sets on default rates and off-taker credit risk, etc. may also be required alongside the project-level support. But I would imagine that that should be relatively straightforward to derive once some early projects come to fruition, and one would think that other Balkan countries may offer reasonable comparables for some aspects of these new markets.

Is there a moral hazard created by a guarantee model to incentivize banks to enter the project financing market?

> Yes, absolutely. Thoughtful structuring can limit this, though not entirely remove it – requiring banks to keep some proverbial skin in the game by only guaranteeing a portion of project loans is one mechanism (such that guarantee works as “first loss” capital but does not cover the entirety of the loan. It is challenging to truly identify and enroll higher risk, less capable entities – one criticism of some relevant U.S. programs to grow the renewables sector was that they largely supported big companies, not startups. I would think this will be an issue with banks as well, so consider criteria to ensure that MCC is truly growing and building capacity in the local sector, and not subsidizing larger, established international entities that have underwriting capabilities already and are only seeking cheap capital (they may leave once the cheap capital goes away, or may not support local jobs and opportunity).

Is the idea of a demonstration effect real in your mind?

> Yes – though I would not oversell it. The challenge is rarely as simple as just getting the first project up and funded and running successfully, but the demonstration can certainly encourage

others to consider entering the market (particularly if MCC and other partners are able to de-risk some critical elements).

For a small country such as Kosovo (with a high-risk reputation) how can we attract quality international project developers – should we pool IPP generators into a portfolio – to pursue investments along MCC and other DFIs?

Blended finance structures and capacity building to support early investments are an important start. Ultimately these developers will also need to see evidence of returns commensurate with the risk they are taking – this is the piece that I don't feel I have enough context from the memo to assess. I would also push MCC to define "quality" – there's a difference between creating structures that will support / accelerate project investment dollars in the near term and those that will provide both a capital infusion as well support longer term growth levers.

Patricia Sheikh, Corporate Council on Africa

I don't see enough of what the Government of Kosovo's role is in this project, particularly with respect to regulatory and legal requirements.

The Kosovo Credit Guarantee Facility (KCGF or Facility) has a capacity guarantee up to $25 mi in loans. The paper says MCC is considering working with local stakeholders to add project development capabilities to the Facility and to increase its guarantee to $180 m… Is a guarantee of $205m sufficient to generate interest? Is the Government of Kosovo also backing this commitment?

The question was asked if the objectives could be achieved without a financial component. I don't see how it can.

I am concerned whether a small, high risk small country like Kosovo cab attract quality international developers.

Mini Roy, Metis Markets, LLC

Initial reactions and concerns?

Implied sovereign rating? Are KCGF obligations guaranteed by the sovereign?

Please quantify gaps and the number of IPPs required to fill the gaps

Why is only renewable energy being considered?

If feed-in tariffs are required to make renewables competitive – how is this tariff paid?

Renewable energy construction period are generally short – focusing viability on post construction term financing..pls confirm

Is investment required also for distribution/metering? Is this part of the compact? $49MM seems like a small sum and proposal is seeking to leverage this via KCGF to expand capacity to $180MM?

There seem to be several local developers. Not clear an international developer is needed if MCC TA can help develop bankable PF structures. International developers may be hard to attract given size of market unless on regional terms

Based on the options presented do you think the current proposed approach will achieve objectives without a financing component? What aspects of the model do you have questions about? Anything particular that you like or dislike?

What is the leveraging factor for guarantees in KCGF? 1:4/1:10?

Not clear if local capital and bank markets are sufficient for the need – pls clarify

How does KCGF guarantees support bank lending for SME – guarantee reduced risk capital allocated? By how much? Assuming that international lenders will see it as a sovereign guarantee?

MLA Insurance wraps can allow borrowing at rates better than sovereign in international markets (eg MIGA/Hungarian Exim) but hedging risks remain even with pass-through tariffs

MCC TA will probably actively use international banks active in the region for hedging/funding discussions

Local banks can use international green bond markets or KCGF can to accumulate projects into a viable CLO

If MCC addresses the project preparation and development issues, will local or regional bank realistically then take on project financing risk or will they continue to sit on the sideline?

Basle II bank regulatory frameworks are not supportive of banks holding onto long term illiquid assets. Is this different in Kosovo? Banks can support developers LQ and O&M obligations

Hedging of currency risk for offshore borrowing

Capital market liquidity to refinance – International – not a EU member but eligible for EIB funding. Local capital – insurance, pension funds?

Is there a moral hazard created by a guarantee model to incentivize banks to enter the project financing market?

Yes. Risk sharing is generally needed to avoid moral hazard. USAID typically risk shares 50/50. However, funding benefit from a 100% rating can be substantial despite the moral hazard.

Moral hazard can also be dealt with structurally where local banks engage in construction of projects and the guarantee can be used when the plant is operating to specifications to place the debt with local institutional investors. This would educate the banking sector on project finance (the guarantee is available only to completed well-structured projects – terms provided by KCGF) and also allow them to fund the initial lending on traditional (collateralized) terms but allow the collateral to be recycled quickly. KCGF could also offer the guarantee to current projects

Is the idea of a demonstration effect real in your mind?

Not clear how specific the solution is to Kosovo as a country or to the electricity sector

For a small country such as Kosovo (with a high-risk reputation) how can we attract quality international project developers – should we pool IPP generators into a portfolio – to pursue investments along MCC and other DFIs?

Not clear how this would work in practice?

International project developers could provide TA to local developers and get them knowledgeable on reports required by international lenders and markets

MCC Advisory Council: Written Feedback – Blended Finance

Nilmini Rubin, Tetra Tech

The Blended Finance Roundtable Report captured most of the basics. However, what is not stressed enough is that there is no shortage of equity or debt for high impact infrastructure projects, even for projects in emerging markets. There is however a shortage property structured projects. Billions of dollars are on the sidelines, available to be deployed if projects can be properly de-risked. MCC and other institutions could play a role through blended finance in helping mobilize the private capital by addressing the risks. Many of the credit enhancement/blended finance tools are well known and some have been deployed more than 20+ years ago. It may be good for MCC to look at some of these techniques to see what has worked in both emerging and developed markets and in more challenging sectors (water, transport, MSW etc.) with thin or no margins. MCC should look to solutions of credit enhancement and/or concessionary financing that can play a permanent role, rather than one-off or project by project support.

As an example, MCC could consider the merits of a establishing a program within a Ministry of Water or Ministry of Transport solely focused on mobilizing private investments in greenfield or brownfield infrastructure. Such a program could lend (or guarantee) on a long-term basis (critical for infrastructure), on a concessionary basis and with flexibly in terms and conditions (vs. eg. bond financing). This injection of long term, concessionary capital support, can be a tool to also bring down tariffs for the population. This source of financial support can also help mobilize projects that otherwise would not be financially attractive to a sponsor (private investor). Such a program can start small and it can be scalable over time, as the government's capacity grows. One goal would be for the program to play a permanent role in a system of infrastructure finance for strategic or high-impact projects. This mechanism has worked in some markets.

Separately, MCC should look at addressing the issue of sub-sovereign infrastructure and how to help mobilize private capital. One needs to look into addressing challenges of financing sub-sovereign related infrastructure, as sub-sovereign institutions within gov't are expected to take on increasing responsibilities in providing infrastructure services (eg. water, MSW management, etc.). Central governments are not typically prepared to provide all the credit enhancement needed to help mobilize funding for these sub-sovereign projects. They have limited budget capacity, competing demands, and are often under pressure from the IMF to limit the magnitude of sovereign guarantees offered.

Mobilizing local currency financing, to match local currency revenues, is critical to develop sustainable infrastructure financed at the sub-sovereign level. MCC should look into innovative local credit enhancement entities and techniques that may support the mobilization of domestic commercial debt for sub-sovereign infrastructure. The techniques that are appropriate often differ country by country. Appropriate credit enhancement techniques may depend on the status of domestic financial markets + degree of sophistication at local banks. MCC should look at the possibility of providing tailored solutions for each market, including (possibly) different types of credit enhancement structures, such as different types of guarantees (comprehensive vs. partial credit), co-financing and subordination, pooling, etc.

An issue to address is the Compact term limit. Development banks have much longer horizons as do most independent power developers. Even one that comes to mind (which has a deliverable exit strategy) claims they seek a 7 year term before starting to off load shares.

As a general principle, MCC and other DFIs/Donors need to work hard to not crowd out commercial banks/lenders on energy projects and focus on the high risk projects rather than the low risk projects.

DFIs and Donors should focus on the more difficult work of ensuring a stable and attractive enabling environment for private sector engagement i.e. promoting a clear regulatory framework/tariff, supporting performance improvements in utilities to bring greater liquidity to the sector, ensuring a good platform for FDI, etc. There is a clear need to improve the enabling environment and these types of investments are not in competition with the private sector. Instead they lay the groundwork for private sector involvement in the future.

Kevin Moss, World Resources Institute

- Emphasize in the strategy the need to partner with institutions that have an ability to provide equity.
- How will MCC ensure that it is providing just enough concessional resources to make the project commercially viable? How will this be done and reported? Will it require any additional analysis or metrics than is currently in place?
- What is the MCC's risk appetite as it concerns blended finance structures. Will any additional risk appetite metrics and limits be necessary beyond what currently exists?
- On "tailoring to the local context," it is worth underlining the large synergies inherent in MCC

continuing to partner with USAID's Development Credit Authority, as DCA has a strong network of local financial institutions it can help bring into blended finance transactions.
- Consider taking account of NDCs and deep decarbonization plans in its priorities.

Mima Nedelcovych, Initiative for Global Development

Blended Finance document well presented. My only query would be how blended finance approach can also be applied during the pre-project development phases to properly structure projects and get key funders already on board. Cost shared feasibility studies such as ones USTDA funds. Such major studies and especially ESIAs can be very costly and best to have the DFIs share the cost and have them "inside" the project so to speak.

Mini Roy, Metis Markets, LLC

Consensus developing on use of Blended Finance techniques to promote achievement of Sustainable Development Goals

Presentation focused on power, infrastructure and water – most of the current market is following this; perhaps MCC's toolkit could extend the sectors to other SDG areas that have had difficulty in attracting private investment e.g. health, education

MCC TA at the sovereign level is crucial in developing policies to pull in private capital

Successful examples like Jordan should be publicized to get the market familiar with MCC's capabilities

MCC getting well known by partners in DFI/MLAs; need to expand and close joint deals

Standardization of terms/policies etc and coordination with other players key to scalability. Will compacts include requirements for blended finance structures/eg cascading requirements like the World Bank?

Can MCC support equity/first loss structures in MCC Compact countries, more awareness needs to be built in country and regionally.

MCC's key differentiators:

- Relationship with sovereign governments in Compact countries
- Deep knowledge of sector issues and governance
- Follow through with data analysis
- Transparency

Private market participants will want to know:

- TA – how to access funding or reports – are these public? Are there data rooms with

country/sector information available to other participants – DFIs
- ESG – are these similar to other DFI's – are there issues in cooperating?
- Capital Structure
- Which part of the capital structure can MCC support?
- Pricing guidelines by country/sector?
- Which risks can MCC/Compact government support
- Can MCC support local currency borrowing?
- Cost of Financing – will MCC funds allow for buy-up of return to investors?
- Risk Mitigation – which risks can MCC cover
- Is US interest now required?